

STATE OF WASHINGTON

# BUDGET

FOR THE 1959 - 1961 FISCAL BIENNIUM



SUBMITTED BY  
GOVERNOR ALBERT D. ROSELLINI

JANUARY, 1959

WARREN A. BISHOP  
Assistant to the Governor

**State of Washington**

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**January, 1959**



MR. PRESIDENT, MR. SPEAKER, LADIES AND GENTLEMEN OF THE LEGISLATURE:

It is a privilege for me to appear before you today to present my budget message. This is a milestone in the fiscal history of our State because it marks the first formal budget message presented by a Governor of Washington and the introduction of the State's first program budget.

The budget message is my opportunity to discuss with you my fiscal policy, the work programs which I believe to be needed to meet our obligations to the people and the budget or cost requirements to carry out those programs. In our complex society requiring a variety of public services to be discharged by large scale government the budget becomes no mere compilation of financial schedules but the principal instrument of public policy expressing the concrete proposals for services by government to create and maintain the kind of society which our people desire. It is indeed the epitome of democratic action through which a Governor may propose and a Legislature may enact public policy. It is a solemn contract between the Executive Branch and the Legislative Branch for the performance of public services of given kind and quality with the appropriations granted.

### OUR FISCAL PROBLEMS

This Administration inherited grave fiscal problems; a growing deficit, inadequate services and a poor fiscal management system. Only through severe or injudicious cutbacks in services could the deficit be liquidated; only through improperly conceived revenue measures could these inadequate services be brought up to their proper levels; and the problems stemming from an ill-ordered system of fiscal management have grown increasingly acute over the years. During the current biennium we have taken significant steps to correct each of these defects. These I will treat further in this message and in my budget proposals. Suffice it to say here that we have attacked the deficit by intelligent and careful curtailment of expenditures below appropriations authorized; we have improved services within the money available, our institutions for example; and, we have begun to put our fiscal management in order through our new budget and accounting system.

A growing financial problem is not unique to our State. Our sister states are affected likewise. We are faced, however, with rapid population growth which must be met not alone by services to business and agriculture but which strains our resources to provide for adequate public schools and higher education, proper institutional care and treatment, and equitable and humane provision for our older citizens. In some respects, however, we do stand out from our sister states. We have assumed at the State level a greater share of the cost of public schools and public assistance than is true in their case. To this we owe a large part of our General Fund problem. We owe it, also, to some of the outmoded provisions of our State Constitution which



prevent local government from providing adequate services *locally financed*. The answer obviously is not to move further toward assumption of local burdens by the State unless we wish to destroy local government.

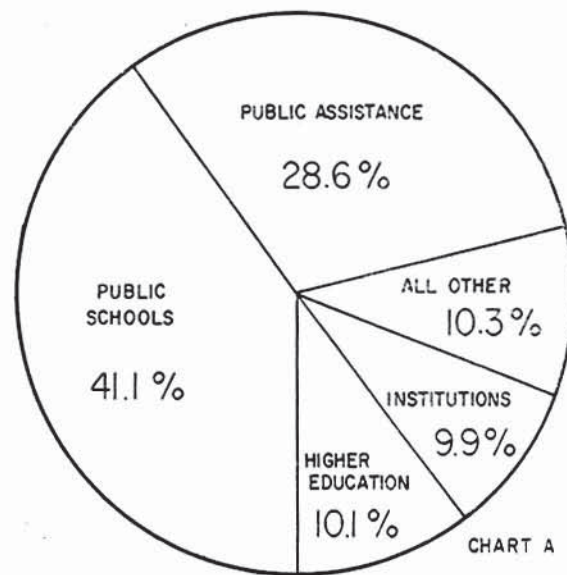
We inherited a deficit of almost \$30 million. Despite savings through curtailed expenditures in this biennium amounting to some \$20 million, our revenue fell during the recent recession and our public assistance requirements increased. The result is an increase in the deficit for this biennium. In the coming biennium for which we are now budgeting the situation is not improved. Despite an increase in revenue to the General Fund resulting from renewed business activity this increase does not keep pace with expenditure requirements. Against estimated revenues of \$730.4 million from present sources we need, even after careful budget pruning, \$835.5 million to meet appropriation requirements for the next biennium, leaving an excess of expenditures over revenues from present sources of \$105.1 million. I propose to do something about this. To envision the entire fiscal situation, we must add to this need the deficit at the end of this biennium. Our State cannot continue on this basis. We must find a solution to our problems now and for the long run. We have made and must continue a penetrating examination of our spending programs. We must plan for orderly retirement of the deficit. We must meet our revenue requirements for the next biennium and take firm steps toward a better constitutional base for revenues and for fiscal control. Later in this message I shall emphasize the need for submitting to the electorate a constitutional provision to empower the Legislature to levy an income tax. I also urge the adoption of constitutional measures to provide for improved budget and fiscal management and an annual legislative session. Drafts of these proposals will be submitted to you.

My expenditure and revenue proposals are designed to provide effective government during the next biennium. I encourage their examination. Our budget staff is available to assist you. My budget proposals are detailed in this message and I am confident that you will conclude that they deserve your affirmation and early enactment.

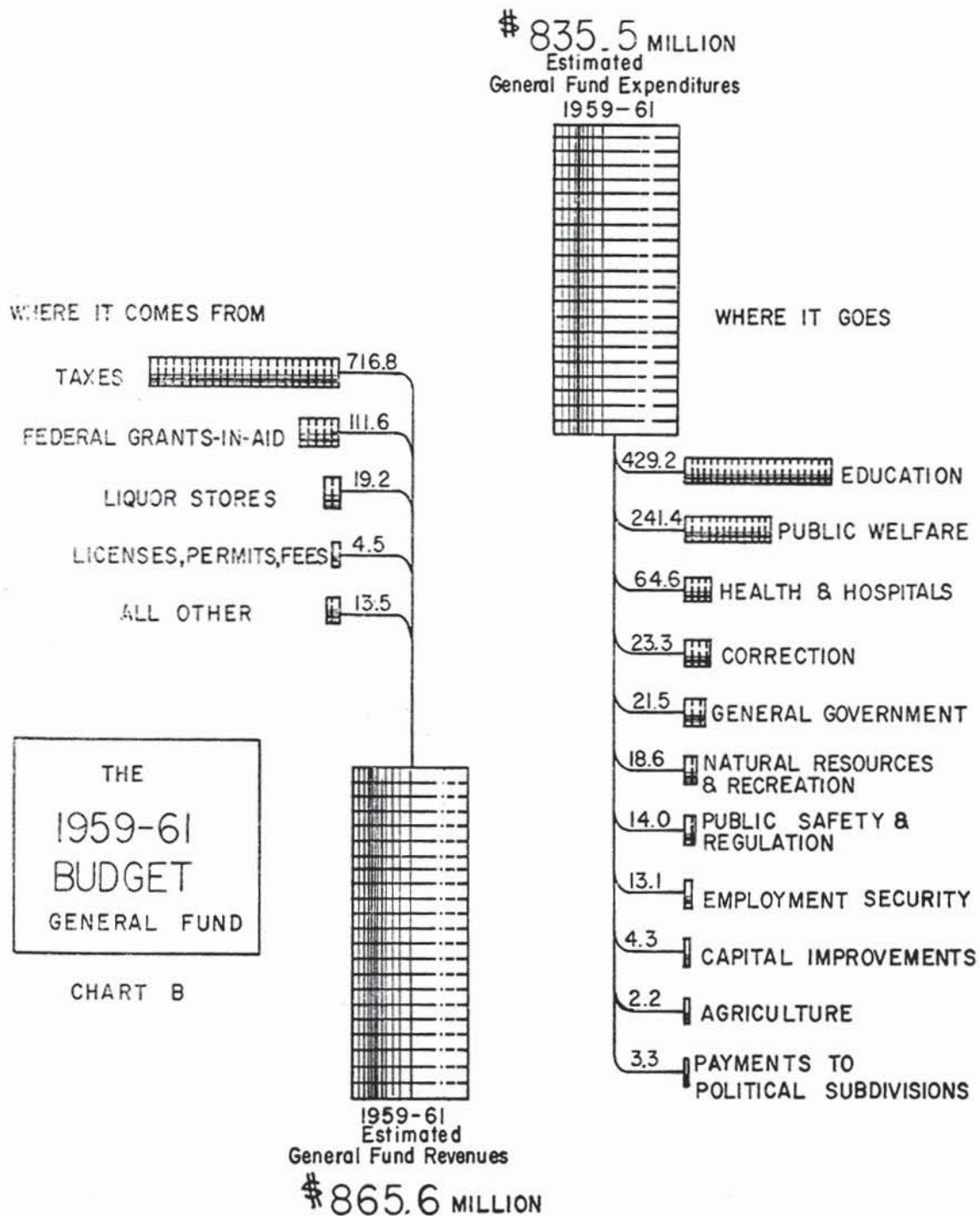
### THE NEW BUDGET SYSTEM

After a decade of debate and discussion the last session of the Legislature voted, at my suggestion, to do something about our archaic budget and accounting system, the principal products of which have been frustration and lack of information. This was welcome action in this time of fiscal stress and provided a ready method for the

GENERAL FUND EXPENDITURES BY MAJOR ACTIVITY



early establishment of proper mechanics for analysis of the budget now before you. The development of a modern budget and accounting system is not a partisan matter. It is in the interest of all our citizens. I, therefore, appointed a bipartisan legislative and administrative advisory group and engaged a firm of nationally recognized consultants to undertake this task. We have made heartening progress of which the new budget document is visual evidence. We have strengthened and will continue to strengthen the Central Budget Agency as an integral part of the Governor's office.





Our account structure has been greatly improved and simplified and our revenues have been classified for the first time. We have taken the first steps toward continued development of an orderly long-range capital improvement program. An effective accounting and reporting system will be placed in operation July 1, 1959.

The program budget now before you contains many changes in fund and appropriation treatment too numerous to mention here. It sets forth with clarity the work programs in which the State is engaged together with their cost. It has been developed through cooperative effort with the operating agencies. It provides a basis for effective administration of the budget during the next biennium and the means of measuring performance in the future.

Inherent in my budget proposals is the assumption that having initiated budget reform you will approve what has been done. The adoption of simplified appropriations will give to the Executive Branch both responsibility and authority to manage funds; and the adoption of legislation will provide for more effective fiscal control. The legislation I will present to you in the form of a new budget and accounting act is designed to place in the hands of the Governor the tools needed to do the job. We need to fix clear responsibility for budgeting and accounting, to provide for the development of comprehensive and accurate financial reporting and to establish a modern basis for budgeting. This work should continue during the next biennium and be expanded to encompass a review of agency operations to effect economy and improve performance.

You will also receive by Executive Request, bills to carry out the budget proposals; a budget bill for agency appropriations, a highway budget bill, a deficiency appropriation bill, a bill adopting the Capital Improvement Program, a bill appropriating for capital projects, a bill appropriating for highway projects, revenue bills to provide new funds to finance the budget and bond bills to provide funds for capital projects.

The requests of the operating agencies upon which the expenditure programs and projects are based were carefully reviewed by my budget staff and by me. I held extensive hearings on both operating budgets and capital improvements, and requirements were carefully balanced against resources. The result is a minimal budget for each agency consistent with service needs. To budget less would reduce services or curtail progress.

## **THE REVENUE PROGRAM**

I had resolved when I first took office that I would not propose new taxes during the first two years of my Administration. I stated to the Legislature then in session that there might be need for new taxes in the future, but that we could not fairly ask the people for additional revenue until two steps were first taken; that is, first, until I had made studies of the areas under my control in an effort to eliminate extravagant, waste-



ful or uneconomical practices; and second, after a Citizens' Tax Advisory Council had thoroughly evaluated our tax structure and had given us its findings and recommendations. These steps have now been taken. As noted earlier in this message, our economy measures have resulted in savings of almost \$20 million, and the Advisory Council has completed its studies.

In selecting the sources of revenue to finance this budget, I have been guided by the recommendations of the Citizens' Tax Advisory Council, our own analyses, and those same principles of good government and prudent management which have been embodied in my expenditure budget.

I wish to take this opportunity to thank the dedicated men and women who served on this Council on their own time, without compensation, and in the interest of better government. I feel that their contribution is of such importance that I shall identify them.

- Joe K. Alderson, Mayor of the City of Yakima, Yakima (Fourth Congressional District);
- Harry A. Binzer, Secretary, Puget Sound Pulp & Timber Company, Bellingham (Second Congressional District);
- Dean H. Eastman, Vice President and Western Counsel, Northern Pacific Railway Company, Seattle (First Congressional District);
- Wilbur G. Hallauer, Factory Manager and Washington State Senator, Oroville (Fifth Congressional District);
- William C. Klein, Lawyer and Washington State Representative, Vancouver (Third Congressional District);
- A Lars Nelson, Master, Washington State Grange, Seattle (Fourth Congressional District);
- Reno Odlin, President, Puget Sound National Bank, Tacoma (Sixth Congressional District);
- Harold S. Shefelman, Lawyer, Seattle (Seventh Congressional District);
- Mrs. Arthur Skelton, President, Washington Congress of Parents and Teachers, Seattle (Seventh Congressional District);
- Virgil I. Sparks, President, Key City Cleaners, Inc., Walla Walla (Fourth Congressional District);
- William S. Street, President, Frederick & Nelson, Seattle (First Congressional District);
- Mrs. Robert J. Stuart, President, League of Women Voters of Washington, Spokane (Fifth Congressional District);
- Charles H. Todd, Lawyer, Seattle (First Congressional District);
- E. M. Weston, President, Washington State Labor Council AFL-CIO, Seattle (First Congressional District);



John O. Yeasting, Vice President—Finance, Boeing Airplane Company, Seattle (Seventh Congressional District) (replaced Evan M. Nelson, Treasurer of Boeing Airplane Company, who resigned).

The creation of the Council had bipartisan sponsorship in both houses of the Legislature. In appointing the Council's members, I maintained this bipartisan characteristic. Members of the Council also were selected to represent the major segments of the State's economy and were drawn from each Congressional District.

While the Council was not expressly directed to investigate expenditures and expenditure levels, I was gratified that the Council did insofar as practicable. I have relied greatly upon the Council's recommendations in developing my budget.

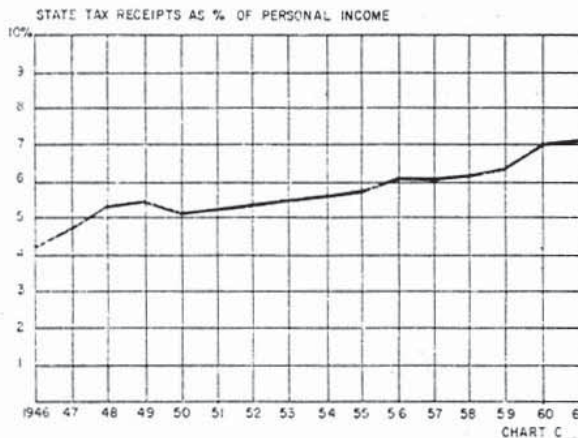
The first three points of the revenue program suggested by the Council were greater efficiency and economy in government, stronger and more self-reliant local government, and rehabilitation of the property tax. I agree with these recommendations. A further recommendation of the Council was that such additional funds as were needed at the State level should come from sources within the existing tax structure, primarily through the retail sales tax. I have long opposed the sales tax as a major source of revenue because it is regressive in character and ignores the principle of ability to pay. While I am still opposed to this type of tax, I could not dispute the necessity—as stated by the Council—of confining our search for revenue for the immediately ensuing biennium to the existing tax structure. Accordingly, if we are to maintain the indicated level of services expected by the people of our State, we must continue to rely on the sales tax as a major revenue source. However, I feel strongly that an increase of the sales tax and the broadening of its base is but a temporary solution to our revenue problems. I recommend it to you with this qualification: that the people have an opportunity to express their views on the adoption of an income tax. Should the electorate act favorably, I would recommend an immediate reduction of the sales tax. The adoption of an income tax is the only feasible way to effect a reduction in the sales and business and occupation taxes.

My immediate revenue program rests primarily, as suggested by the Council, upon an increase in the retail sales and use taxes from  $3\frac{1}{3}\%$  to 4%, coupled with an extension of this 4% rate to most businesses under the heading of "services" in the State's business and occupation tax law. While these services would bear a 4% sales tax, the business and occupation tax for these same services would be reduced. The 4% sales tax rate would provide for permissive pass-on of the tax as contrasted with the mandatory pass-on requirement of the existing sales tax because of the variety of established business practices encountered in this category. It would permit those businesses with a sufficient margin to absorb the tax and thus minimize its impact on the consumer.

Departing from the recommendations of the Council, I cannot recommend the extension of the tax to medical and other health services such as those performed by dentists and hospitals. These services are an increasing element in the budgets of our senior citizens and others for whose care the State now accepts a large responsibility,



and these services are often of an emergency nature and as such difficult to anticipate and pay for, even without the additional 4% tax. In view of the over-all tax requirements of the State, however, it is reasonable that the persons performing these medical services share in the increased cost of government through an increase in their business tax to 1½%. Medical and other health services typically yield a net return on gross receipts significantly above the average, and this tax, equivalent to just 7½¢ on a \$5.00 fee, can be absorbed without undue hardship. This proposed rate of 1½% would in no way disturb those specific exemptions relating to patient care in hospitals.



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The final step in my revenue program, made necessary by the projected inability of the State School Equalization Fund to meet its obligations in the next biennium, is an increase in the motor vehicle excise tax to 2% effective in 1960. This increase would also benefit cities under the existing apportionment formula to the

extent of approximately \$2 million in the next biennium.

The revenue program I am offering to you has several distinct advantages over several other ways of raising new revenues *within the existing tax structure*. First, by spreading part of the burden over services and motor vehicles where the load is distributed more nearly according to ability to pay, the impact on individuals and families of more modest means has been lessened. Second, these taxes are not a direct levy on production, and although business will share in the burden through its purchases of taxable goods and services, the tax climate for industry will not be appreciably changed. Finally, these proposals are related to existing statutes, definitions, and administrative rulings which make their impact more certain and their revenues more assured.

When the difficult decision to levy more taxes has been made, the only logical action is to levy the taxes at the earliest practicable date consistent with revenue requirements. I propose that this program take effect April 1, 1959.

These proposals will move us well along toward solving our problem, permitting us to balance current revenues and expenditures and to make an inroad in the deficit. The deficit although reduced would remain, however, to plague our fiscal soundness and threaten our credit. We can take a further step to reduce the accumulated deficit by certain one time measures *which will not impose a continuing tax burden*. One of these measures would provide acceleration by one month of collections under the Revenue Act of 1935 by changing from a bimonthly to a monthly reporting system for about one-third of our larger accounts, with the balance on a less frequent or an-



agencies and programs together. For many of our agencies, increases in the budgets are occasioned by the trend in work load for normal increases in population or persons served. The discussion which follows will be confined, therefore, to budgets which reflect changes in policy or program of a major character.

### **General Government**

I propose that a special appropriation be made available to my office to enable me to continue our important efforts to develop more economical and efficient operations in the Executive Branch. The 1957 Legislature authorized me to develop a program type budget and a supporting accounting system. I have commented elsewhere in this message on the significant improvement that this new method of budgeting represents. It is now necessary to follow through on this new method of budgeting, accounting and reporting, thereby gaining the maximum value that these new techniques afford us.

It is of paramount importance that, as Governor, I have the authority and staff resources needed to enable me to perform effectively as Chief of the Executive Branch. The new Central Budget Agency which is being created in my office represents the first important step in filling this need. A continuing part of this new agency's responsibilities will be to make surveys and installations of new methods and systems required for the improved use of manpower and materials.

Funds from this special appropriation will also be used to retain consultants to guide us in this important program. Our initial efforts in developing a program budget have even at this early stage revealed the need for eliminating significant areas of duplication, for promoting more effective coordination among our Executive agencies and for establishing a firm basis for Executive leadership in the State. Our State Government today is truly big business; we cannot afford to devote less than our maximum energies in meeting the administrative and management problems which attend the operation of a complex enterprise.

The legislation I am proposing to effect needed fiscal control involves divesting the State Auditor of his current responsibilities in matters of pre-audit and disbursement. The pre-audit of proposed expenditures is clearly an Executive function and is not one which can be effectively carried out by an agency independent of the Executive. By the same token it is inappropriate to assign to the same office, i.e., the State Auditor, the responsibility both of approving expenditures and then disbursing funds based on that approval. My proposed legislation will remedy this improper mixture of authority by assigning to the Treasurer the disbursing function and by fixing responsibility for the pre-audit function in operating agencies, accompanied by allotment control, review and follow up by the Central Budget Agency of all agency expenditures. These fiscal realignments will afford the Auditor an opportunity to devote his full attention to the postaudit process.

The Personnel Board has operated since its inception as a non-appropriated activity, rendering services in personnel management to a number of our agencies. In



my judgment the Legislature should be permitted to review the achievements and proposed programs of action for a central personnel service. Accordingly, the budget bill will contain my proposed appropriation for the Personnel Board.

The auditing and tax collection activities of the Tax Commission will be strengthened through the proposed addition of 18 auditors to the Commission's staff. It has been clearly established that an efficient auditor can return many times his salary through careful audit of records reflecting business transactions. This additional staff will also secure fair and equitable tax administration by insuring that all tax liabilities are paid to the State.

A long overdue, thorough overhauling of the purchasing practices under the Department of General Administration is being undertaken. For the first time since its inception the purchasing division will operate under a set of clearly defined purchasing regulations and standards. Also involved in these efforts is a determination of how purchasing can be made a more effective instrument of fiscal policy. Later in the session I will be submitting legislation to improve the existing laws relating to the purchasing function.

One of our objectives during the current biennium has been a strengthening of the administration of the Department of Institutions. I have included in my budget proposals, funds for staffing the central administration of this important Department. During the past year, this Department has been reviewing the operation of its food production and processing programs and the operation of its farms. In this review, it has had the assistance of a committee of distinguished citizens skilled in farm operations and food processing. As a result of this review, the Department has recommended to me and I have included tentative estimates in my budget for a new food processing program. After I have completed my studies, I will submit my final proposals to you during this session.

### **Public Safety and Regulation**

The deferred maintenance of the National Guard armories requires immediate and urgent attention. \$420,000 is requested in the Capital Budget of the Military Department, the majority of which is needed to remedy this situation which has been building up since World War II.

The Department of Licenses is currently re-programming its operations with a view toward installation of a medium-scale electronic computer during this coming biennium. Long overdue is a program for improving motor vehicle registration and operators' licensing procedures. The conversion effort in the Department of Licenses during this coming biennium will result in more efficient and economical services to the driving public, services which now are characterized chiefly by inordinate delays. I view the need for improvements in registration and licensing as particularly important. There has been discussion recently regarding the need for a new Department of